GENESCO

1976

Annual
Report

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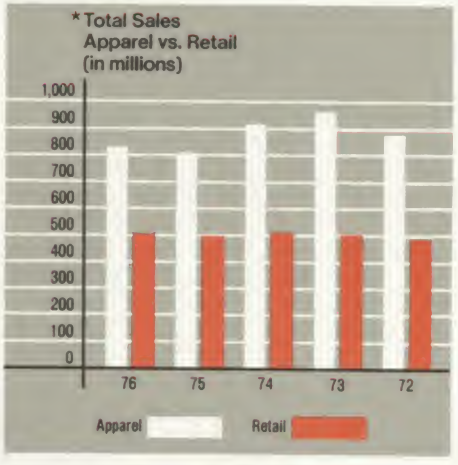
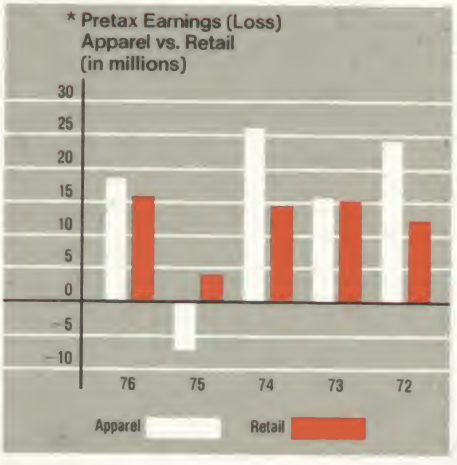
Financial Highlights

Year ended 31 July	1976	1975
Net sales	**$1,135,099,000**	$1,095,935,000
Pretax earnings (loss) of U.S. & Canadian operations	**34,001,000**	(3,680,000)
Income taxes	**(16,885,000)**	(3,804,000)
Nonconsolidated companies	**(1,186,000)**	(6,943,000)
Net earnings (loss)	**$ 15,930,000**	$ (14,427,000)
Primary earnings (loss) per common share	**$1.00**	$(1.42)





	Apparel	Retail
1976	$835,826,000	$505,619,000
1975	$805,661,000	$499,536,000
1974	$918,176,000	$509,648,000
1973	$964,799,000	$501,914,000
1972	$879,512,000	$489,857,000

*Before elimination of intercompany and non-consolidated international sales.

	Apparel	Retail
1976	$18,482,000	$15,715,000
1975	$ (7,369,000)	$ 4,248,000
1974	$26,057,000	$14,363,000
1973	$15,845,000	$15,616,000
1972	$24,353,000	$12,354,000

*Before consolidating eliminations and non-allocated corporate expenses.

Left to Right:
Larry B. Shelton
Vice Chairman – Chief Administrative Officer
Ralph H. Bowles
Vice Chairman – Chief Operations Officer
Franklin M. Jarman
Chairman, President & Chief Executive Officer

Fiscal 1976 was a year of recovery for Genesco. For the year ending 31 July 1976, net sales were $1,135,099,000 compared with $1,095,935,000 in 1975. Pretax earnings were $34,001,000 versus a loss the previous year of ($3,680,000.) Net earnings this year were $15,930,000 or $1.00 per common share compared with a net loss of ($14,427,000) or a loss of ($1.42) per common share a year ago.

In addition to our sales and earnings, other key financial factors showed substantial improvement. The Financial Review section on pages 14 through 17 contains a detailed analysis of our results.

Genesco not only made substantial gains in improving operating results in fiscal 1976, but also took a number of important steps in the implementation of long-range corporate strategy.

Financial Position

In fiscal 1976 Genesco was faced with two major needs which had to be met simultaneously. The corporation not only needed to return to profitability, but also to refinance $50 million of long-term notes payable in November of 1976. We were pleased to report that a public offering of $70 million of long-term notes was completed successfully in March, enabling us not only to prepay the $50 million but also to repay an additional $20 million of other long-term debt which came due during the year.

In addition, Genesco Financial Corporation, our wholly-owned subsidiary which finances most of Genesco's accounts receivable, is arranging for an additional $30 million long-term financing with three major private lenders. We expect to receive the proceeds from this private placement during the 1977 fiscal year. As a result of these actions, the corporation's financial condition has been significantly strengthened.

Executive Talent

One of our highest priorities at Genesco has been the advancement or recruitment of experienced executives for key marketing and merchandising posts. In 1976 our efforts were highly successful. For example, John Schumacher, who had been president of I. Magnin, joined Genesco as group president for women's specialty retail and as chairman of Bonwit Teller. Mr. Schumacher in turn recruited Kalman Ruttenstein, a highly regarded vice president of Saks Fifth Avenue, as president of Bonwit's, and a number of other top merchandising executives.

In the same month that John Schumacher joined Genesco,

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CORPORATION FILE

James K. Wilson, Jr. was also brought into the corporation as president of our Greif and Company men's clothing operation. Widely recognized as one of the leading marketers of men's tailored clothing, he was formerly executive vice president of Hart, Schaffner and Marx.

Genesco also promoted a number of capable, seasoned executives from within the corporation. For example, Robert Cochran, who joined Genesco as a trainee in 1963, was placed in charge of the operation of MALE slacks, jeans and pants. David Davis, who came to Genesco three years ago from Wohl Shoe Company, was promoted to group president for all footwear retail.

There are many other examples of successful executives who were promoted or recruited during 1976. The net result is a continuing upgrading of our marketing and retailing management.

Further Consolidation

During the year, Genesco further consolidated its operations. We sold the I. Miller and Holiday women's shoe stores and leased departments on a basis favorable to Genesco. In addition, at the end of the fiscal year, we entered into an agreement to sell Delmar, a women's swimwear company in Italy. Both Miller and Holiday had been the objects of previous restructuring efforts. Their results had improved, but they did not show sufficient long-term promise to justify additional efforts. Although Delmar was a profitable operation, we decided to sell it because of the unstable political and economic conditions in Italy. This transaction is expected to be closed in fiscal 1977 after receiving approval by the appropriate agencies of the Italian government.

One aspect of our long range strategy is to concentrate management talent and capital resources on those areas of apparel and retailing which have the greatest potential for return to our stockholders. We will continue to reassess our various operations as marketing trends and consumer demands change. But Genesco is approaching a nucleus of solid, high potential companies and our primary efforts are now devoted toward strengthening this core for the future.

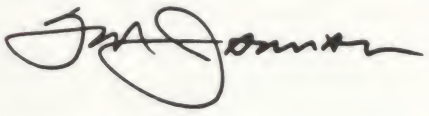
The achievements described here are some of the positive steps which Genesco as a whole took during fiscal 1976. We also made substantial progress in the implementation of long range plans in our operations. Immediately following this letter is a description of Genesco and some of the key elements of our strategy, along with examples of what we are doing to implement this strategy.

The Outlook

In the early part of the economic recovery, consumers generally spent proportionately more of their disposable income on clothing and footwear. As a result of this favorable environment and the internal improvements we are making, Genesco's earnings improved significantly, culminating in the best third and fourth quarters in five years. Beginning in May, however, consumer spending shifted more to durable goods: automobiles, appliances, and housing. As a result retail apparel sales softened in May, June and July. Although this shift caused our fourth quarter to fall below our expectations, the many internal improvements which have been made resulted in a fourth quarter profit for the first time since 1971.

The first quarter of fiscal 1977 continues to reflect the softness described above, and we expect to report lower earnings for the quarter. The general economic recovery seems to be continuing, however, and we are optimistic about Genesco's prospects for the full fiscal 1977 year. As a result, if earnings meet expectations, it is our objective to be current on all obligations to preferred stockholders by 31 July 1977. If we accomplish this objective in fiscal 1977, we should be in a position to consider resumption of common dividends at a modest level in fiscal 1978.

In fiscal 1976 Genesco made substantial progress in improving earnings, strengthening its financial condition, upgrading management talent, consolidating operations, and implementing long range strategy. Assuming the continuation of the present economic recovery, we expect to continue to progress in fiscal 1977.



Franklin M. Jarman
Chairman, President and
Chief Executive Officer

Corporate Direction

Genesco is a leading marketer and retailer of apparel products.

Genesco markets both branded and unbranded apparel products, including footwear, clothing and accessories. Some of the better known Genesco brand names include footwear from Jarman, Johnston & Murphy and Easy Street and clothing from Lanvin, Donald Brooks, Chaps by Ralph Lauren, Phoenix, Male, Susan Thomas, Camp, Van Raalte and Formfit Rogers.

Genesco operates specialty retail stores such as Bonwit Teller, Henri Bendel, Plymouth Shops, Roos/Atkins, and Whitehouse & Hardy, and retail footwear stores such as Flagg, Hardy, Jarman, and Johnston & Murphy.

In order to take advantage of our position in the market place while maintaining overall corporate direction, Genesco has established an organization with three levels of management:

1. The individual Operating Companies, managed by Company Presidents, determine their fashion position, product lines, merchandising tactics, and store or brand images. Each company develops its operating goals and proposes them for corporate approval.
2. Group Presidents manage groups of Operating Companies. Each Group President is responsible for transmitting corporate direction, overseeing the performance of the Operating Companies and participating in the development of operating goals and strategic marketing plans for the group and each member company.
3. The corporate organization sets long range goals and overall direction for the corporation in order to achieve growth and profitability. At the same time it also provides primary staff services for the Operating Companies, including legal, financial, credit, real estate, accounting, electronic data processing, and others. One of the major concerns of the corporate organization is to maintain management disciplines within the Operating Companies while preserving their entrepreneurial, marketing and fashion talents.

As a marketer and retailer of apparel Genesco's fundamental corporate objectives are:

1. To establish Genesco in a unique position by application of the following marketing strategies:
   - Marketing a diverse range of apparel products and operating stores in a wide geographical spread.
   - Identifying emerging apparel fashion trends and supplying them quickly.
   - Maintaining or establishing a significant branded position in each product category.
   - Maintaining or establishing a leading specialty retail position in each area where the company has stores.
2. To continue to upgrade the financial position of the corporation, including:
   - consistent corporate-wide profitability
   - reinstitution of dividend payments
   - building a stronger balance sheet.
3. To achieve orderly, planned growth by concentrating capital assets in selected business areas that provide a significant return on investment.

This statement not only defines Genesco but also sets forth some of the directions in which it is heading and the criteria for future growth. Naturally, both direction and criteria will be re-examined periodically, but we would expect to hold to this basic course.

The basis of our business is the marketing and retailing of apparel. Within this framework, our operations can be subdivided into several categories based on the type of products and services we offer.

Line of Business		Products/Services
APPAREL	Footwear	Men's Women's & Children's
	Men's Clothing	Tailored Clothing Sportswear Underwear & Pajamas Hosiery Accessories
	Women's Clothing	Dresses Sportswear Intimate Apparel Swimwear Hosiery
	Children's Clothing	Sportswear Dresses
RETAIL	Footwear	Men's Women's Family
	Specialty Apparel	Men's Women's
	General Merchandise & Variety	

On page 1 Genesco's results are shown for both apparel and retail for the last five years. In addition, a financial breakdown based on the various categories within those two segments can be found on page 14 in the Financial Review section.

In keeping with our corporate strategy, Genesco made a number of positive changes within the operating companies during fiscal 1976. These changes are described on the next eight pages.

Pictured over the next eight pages are some of Genesco's better known specialty stores and footwear stores. Serving its respective customers, each store has its own distinctive atmosphere and appearance.

With many of the actions taken previously beginning to bear fruit, Genesco significantly improved its operating results over the previous year. Just as importantly, we were able to make major strides in the implementation of our strategy in fiscal 1976.

Over the past three years, Genesco's efforts were primarily directed toward strengthening the financial condition and organization while pruning undesirable operations. During this same period, management was also forced to cope with a major recession. Most of the internal rebuilding programs are now beginning to produce satisfactory results and the pruning is almost complete. The improvements in both financial condition and operating results enabled Genesco to implement or initiate a number of programs in fiscal 1976 which are part of the long term corporate strategy.

Marketing

As the description of Genesco on page 4 states, one of our key strategic concerns is to maintain or establish a significant branded position in each of our product categories. In keeping with this strategy, Genesco strengthened its position in the branded men's tailored clothing business this year through our Greif division, a leading marketer of unbranded men's clothing for over 100 years. Greif's entry into the branded business was made not with one brand but five separate "Living Labels."

Greif's new concept is to design suits for five lifestyles which coincide with those of the majority of American men over 25. Each brand is styled by a leading designer: Chaps by Ralph Lauren features clothing for the traditionalist who wants a touch of flair. Lanvin clothes offer the latest in European styling. Donald Brooks designs clothing which is fashionable within the framework of the classic. Guy

When the action gets exciting on the field, Genesco keeps you in style in the stands. The outspoken fan's outfit is from Chaps by Ralph Lauren, while his companion's clothes are by Vivo.

Laroche presents more casual clothes with a look of international elegance. And the Tom Weiskopf line offers sports clothing in a wardrobe of 36 colors. These "Living Labels" were introduced for retail sales starting in August of 1976, and the initial reception exceeded our expectations. The Greif program complements our highly successful Phoenix men's clothing operation.

Lifestyles are also the basis for a major realignment of Genesco's women's branded footwear lines. An intensive marketing survey was undertaken during the year to study the consumer, her lifestyles and footwear needs. As a result of the new targeting, the lines expect to launch and support national marketing efforts.

Under the new alignment, Easy Street now focuses on the mature woman with a need for daytime dress, casual and tailored footwear. The Vogue line is concerned with the young career and married woman's footwear needs. Charm Step's marketing strategy is to serve the value conscious consumer. The Cover Girl line is directed toward high school and college girls, and the Storybook line will be for children.

In addition to the developments in the branded area, an important strategic change was made in several of the women's and children's clothing divisions. In these divisions, the marketing and manufacturing functions were separated in fiscal 1976.

Previously, the presidents of these operating companies were responsible not only for designing and marketing their lines, but also for overseeing manufacturing operations and production schedules. Under the new arrangement, the presidents are now able to concentrate on marketing and product development, while a skilled production manager supervises manufacturing operations.

Business executives of both sexes can find the right fashions from Genesco. The gentlemen from left to right chose suits by Phoenix and Lanvin, while the lady wears Dalani.

NO
COMMERCIAL
TRAFFIC

For a night of dancing to your favorite group, Genesco keeps your styles in step. The jumpsuits are from Male and Whistlestop.

A third strategic marketing move made during the year was to integrate the footwear import operations with the domestic footwear operations to form one cohesive footwear organization. In the past, Import was operated as a separate division in competition with domestic divisions. It is apparent that imported footwear will continue to be a growing factor in the footwear market.

The integration of Import into our domestic footwear marketing will enable us to better respond to this trend and provide our customers with a proper balance of domestic and imported footwear. As a result each of the footwear lines will now include imported footwear where it is appropriate as part of the line's total marketing effort. This will enable the divisions to remain competitive with other imports and to offer customers an attractively styled and priced line of footwear.

All of these actions are part of Genesco's over-all strategy, aimed at building branded marketing operations in the areas of greatest profit potential. At the same time we are continuing to maintain a broad span of operations within the apparel industry so that the effects of a temporary downturn in one area will not have a great effect on the entire corporation.

Retailing

In fiscal 1976 Genesco laid the foundation for what is planned to be extensive growth in its retail operations.

For the last two years new store expansion was curtailed within Genesco while the economy went through the recession and the corporation continued its restructuring program. During this same period, several divisions whose prospects did not offer sufficient potential were sold. Other retail divisions continued to close locations which changing traffic patterns or other factors had made unprofitable.

The net effect was a reduction in total units.

Management used this period to strengthen continuing units and prepare to resume opening new ones. Beginning in fiscal 1977, the corporation has allocated over $8 million for opening 63 new stores and renovating 124 more.

An excellent example is Bonwit Teller. Under new leadership these specialty stores have demonstrated outstanding potential. As a first step toward achieving that potential, Bonwit's began programs to improve the physical layout and merchandise presentation of the New York flagship store on Fifth Avenue and the graphic appearance of the entire store group. Once these programs are completed and their results evaluated, a multi-store expansion program is planned over the next five years. A number of locations are being considered which have the proper concentration of potential Bonwit customers.

Other Genesco retail operations are slated for significant expansion.

Plymouth Shops opened its 28th store in August in a prime location in the World Trade Center. It has been estimated that several hundred thousand people will pass this location every day. And there will be further expansion for Plymouth in the greater New York area. There will also be a significant number of new store openings in footwear, especially in the men's area.

There were further changes in Genesco's retail operations this year. In the fall of 1975, the Frank Brothers stores in Chicago were changed to Whitehouse & Hardy, with appropriate changes in merchandise. The result was a dramatic surge in sales and earnings. Based on the experience in Chicago, the decision was made to change six more stores in the greater New York area to Whitehouse & Hardy. This change was completed in August of 1976.

As a result of the changes being made and the expansion program undertaken, Genesco expects significant growth to come from its retail operations.

For whatever occasion, Genesco has the shoes to fit the lifestyles. From back to front, the executives chose Fortune, Easy Street and Johnston & Murphy, the sports fans wore Jarman and Vogue, and the dancers picked Jarman and Cover Girl.

Net Sales

Net sales of the major business areas were as follows (in thousands):

	1976	1975	1974	1973	1972
Apparel	**$ 835,826**	$ 805,661	$ 918,176	$ 964,799	$ 879,512
Footwear	**400,482**	381,162	396,107	446,675	388,754
Men's clothing	**214,351**	204,463	254,222	247,402	252,192
Women's & children's clothing	**220,993**	220,036	267,847	270,722	238,566
Retail	**505,619**	499,536	509,648	501,914	489,857
Footwear	**228,674**	229,418	223,739	224,071	216,138
Specialty apparel	**232,931**	226,812	241,326	236,942	239,643
General merchandise & variety	**44,014**	43,306	44,583	40,901	34,076
Totals	**1,341,445**	1,305,197	1,427,824	1,466,713	1,369,369
Less intercompany & nonconsolidated international sales	**206,346**	209,262	243,097	242,163	210,436
Consolidated net sales	**$1,135,099**	$1,095,935	$1,184,727	$1,224,550	$1,158,933

During fiscal 1976 the average number of retail units operated was 1,578 compared to 1,640 in 1975, a decrease of 4%.

Gross Margin

Gross margin increased from 29.6% of sales in 1975 to 32.3% in 1976. This increase is attributable to the disposition of excess productive capacity, increased levels of production in remaining plants and more effective merchandising in retail operations.

Selling, Administrative and General Expenses

Selling, administrative and general expenses were $313,127,000 or 27.6% of net sales in fiscal 1976, compared with $301,768,000 or 27.5% in fiscal 1975.

Interest Expense

Interest expense was $19,217,000 in 1976 compared with $26,631,000 in 1975, a decrease of 28%. The weighted average short-term interest rate was 7.3% compared with 10.3% last year. Average short-term debt of both Genesco and Genesco Financial Corporation (GFC) decreased from $165,100,000 to $124,506,000.

Interest expense includes interest payments to GFC, a wholly-owned non-consolidated subsidiary. These interest payments are designed to cover GFC's fixed charges at least 1.5 times. GFC's pretax income of $3,734,000 in 1976 and $4,171,000 in 1975 is credited against interest expense. The effect of this treatment is to show the interest expense of GFC as part of Genesco's interest expense just as if GFC were a consolidated subsidiary.

Depreciation and Amortization

Depreciation and amortization (including amortization of lease rights) was $16,943,000 in 1976 compared with $17,176,000 in 1975.

Pretax Earnings

Pretax earnings (loss) of the major business areas were as follows (in thousands):

	1976	1975	1974	1973	1972
Apparel	**$18,482**	$(7,369)	$26,057	$15,845	$24,353
Footwear	**26,592**	17,058	16,763	14,951	18,561
Men's clothing	**(228)**	(12,029)	2,263	(4,207)	2,216
Women's & children's clothing	**(7,882)**	(12,398)	7,031	5,101	3,576
Retail	**15,715**	4,248	14,363	15,616	12,354
Footwear	**12,269**	9,740	11,715	12,970	11,958
Specialty apparel	**2,047**	(3,464)	3,131	2,428	(1,262)
General merchandise & variety	**1,399**	(2,028)	(483)	218	1,658
Totals	**34,197**	(3,121)	40,420	31,461	36,707
Consolidated eliminations and nonallocated corporate expenses	**(196)**	(559)	(3,265)	814	1,663
Pretax earnings (loss) of U.S. and Canadian operations	**$34,001**	$(3,680)	$37,155	$32,275	$38,370

The pretax results shown for each business category have been reduced by a charge representing its pro rata share of corporate financial and administrative expenses. This charge is made to individual operating divisions by applying a percentage generally approximating the prime interest rate to the operating division's average investment in accounts receivable, inventories and undepreciated fixed assets.

Net Earnings

After provision for income taxes and losses relating to nonconsolidated companies, the company had net earnings of $15,930,000 in fiscal 1976 compared with a net loss of ($14,427,000) in fiscal 1975.

Primary Earnings (Loss) Per Common Share Computation (in thousands except amounts per share):

	1976	1975
Net earnings (loss)	**$ 15,930**	$(14,427)
Less (add) preferred dividends paid or in arrears	**3,400**	(3,458)
Net earnings (loss) available to common stock	**$ 12,530**	$(17,885)
Average common and common equivalent shares	**12,592**	12,553
Primary earnings (loss) per share	**$1.00**	$(1.42)

Quarterly Results

In July 1976, the company adopted Standard No. 8 of the Financial Accounting Standards Board regarding the translation of foreign currencies. This Standard requires retroactive restatement of prior year's operating results for the effect of the change in accounting for such transactions. This change had an immaterial effect on fiscal 1976 and 1975 net earnings. Sales and other income statement amounts were also revised to reflect the change. Restated unaudited quarterly results are as follows (in thousands except amounts per share):

	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1976	**$294,515**	**$292,342**	**$277,430**	**$270,812**	**$1,135,099**
1975	303,818	280,183	253,600	258,334	1,095,935
Pretax earnings (loss) of U. S. and Canadian operations					
1976	**12,324**	**10,041**	**9,478**	**2,158**	**34,001**
1975	10,124	(3,311)	(6,293)	(4,200)	(3,680)
Income taxes					
1976	**6,162**	**5,021**	**4,739**	**963**	**16,885**
1975	5,036	(1,367)	(3,461)	3,596	3,804
Nonconsolidated companies					
1976	**(447)**	**234**	**(804)**	**(169)**	**(1,186)**
1975	(197)	(1,530)	(472)	(4,744)	(6,943)
Net earnings (loss)					
1976	**5,715**	**5,254**	**3,935**	**1,026**	**15,930**
1975	4,834	(3,489)	(3,306)	(12,466)	(14,427)
Primary earnings (loss) per share					
1976	**$ .39**	**$ .35**	**$ .24**	**$ .02**	**$ 1.00**
1975	.31	(.34)	(.33)	(1.06)	(1.42)

Capital Expenditures

Capital expenditures in 1976 were $7,742,000 compared with $12,942,000 in 1975. The preliminary 1977 capital expenditure allocation is $20,000,000. The 1977 allocation reflects the emphasis on retail expansion discussed on page 11 as well as continuing programs of maintaining existing facilities and equipment at competitive levels and increasing productivity by simplification or mechanization of the manufacturing process.

Financial Condition

Accounts Receivable

Genesco sells most of its accounts receivable to Genesco Financial Corporation (GFC), at the outstanding balance less a 10% reserve for uncollectible accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC and other financial institutions.

(in thousands)	1976	1975
Accounts receivable per balance sheet	**$ 28,730**	$ 26,544
Add amounts financed	**131,120**	125,508
Total accounts receivable	**159,850**	152,052
Less accounts receivable of discontinued operations	**2,493**	3,174
Accounts receivable of continuing operations	**$157,357**	$148,878

Accounts receivable of continuing operations have been reduced by the following (in thousands):

	1976	1975
Allowance for bad debts	**$6,721**	$7,013
Allowance for cash discounts	**2,482**	2,311
	$9,203	$9,324

Continuing operations accounts receivable turnover, based on average accounts receivable balances during the year, was 7.1 in 1976 compared with 6.3 in 1975.

Inventories

Inventories are classified as follows (in thousands):

	1976	1975
Continuing operations		
Retail merchandise	**$ 85,514**	$ 86,467
Finished products	**55,077**	51,418
Work in process	**27,366**	28,489
Raw materials	**45,421**	38,036
Total continuing operations	**213,378**	204,410
Discontinued operations	**30,285**	27,603
Total inventories	**$243,663**	$232,013

Continuing operations inventory turnover (annual sales ÷ average monthly inventory at balance sheet value) was 5.1 in 1976—up from 4.5 in 1975.

Working Capital

Working capital of $199,695,000 represents an increase of $47,906,000 from 1975. Factors accounting for this increase are shown on page 20.

At 31 July 1976, the current ratio was 2.8 compared to 2.1 at 31 July 1975.

Short-Term Borrowing Arrangements

At 31 July 1976, bank credit lines of $244,150,000 with 45 commercial banks were available to either Genesco and/or Genesco Financial Corporation (GFC). Of this amount $209,650,000 is with 38 U.S. banks, $18,000,000 with 4 Canadian banks and $16,500,000 with 3 European banks. The lines may be withdrawn at any time at the banks' option. Borrowings are usually for ninety day periods and are at the U.S. and Canadian banks' prime rate effective on the date loans are made. European bank rates are based on the Eurodollar interbank rate. Arrangements with banks vary, but most provide that the company will endeavor to maintain collected funds on deposit in each bank which, over a calendar year, will average 10% of the credit line plus 10% of average borrowings under the line. No minimum deposit is required at any time on any of the bank lines. At 31 July 1976, Genesco had no short-term notes outstanding. GFC had bank notes of $69,950,000 outstanding, at a weighted average interest rate of 7.1%. During the year, borrowings by Genesco and GFC averaged $124,506,000 at a weighted average interest rate of 7.3%. The maximum borrowing at any month end during fiscal 1976 was $147,950,000 and at that time cash balances were $60,755,000. The unused lines of credit available to Genesco and/or GFC amounted to $174,200,000 at 31 July 1976.

Future Tax Benefits

Operating losses of years prior to 1975 and the establishment of the $60 million reserve in 1973 resulted in substantial tax carryforward benefits which will be used to offset taxes otherwise payable on future earnings. Future tax benefits recognized as assets on the consolidated balance sheet are as follows (in thousands):

	1976	1975
Current assets	**$16,000**	$11,500
Noncurrent assets	**21,984**	38,493
Totals	**$37,984**	$49,993

The net operating loss carryforwards and timing differences creating these future tax benefits expire during the fiscal years indicated below and management believes their utilization is assured beyond a reasonable doubt.

Fiscal Year	(in thousands)
1977	$ 5,320
1978	1,026
1979	17,802
1980	612
1981 and after	11,283
	36,043
Refunds receivable, net	1,941
Total	$37,984

Tax benefits in the amount of $10.5 million relating to 1975 losses have not been recognized as assets on the consolidated balance sheet. These carryforward benefits expire during fiscal 1980.

Restructuring Program

The plan approved by the Board of Directors in July 1973 to provide for losses on the sale, discontinuance and restructuring of unprofitable operations has essentially been implemented except for the sale of S. H. Kress. Efforts to sell the restructured Kress chain have not yet produced tangible results; however, in view of the favorable results of the Kress operation, greater interest is being shown and discussions are continuing. The Kress stores in operation during fiscal 1976 produced sales of $123,690,000 compared to $121,888,000 in 1975 and pretax operating results were a profit of $1,420,000 in 1976 compared to a loss of ($884,000) in 1975. The operating results of Kress have been credited to the reserve and, in the opinion of management, the remaining reserve of $15,818,000 at 31 July 1976 is adequate to cover all future costs, consisting primarily of lease payments on closed stores, anticipated at this time.

Dividends

Payment of preferred dividends was suspended by the Board of Directors in March 1975. Currently, a restriction in certain long-term debt agreements prevents the resumption of preferred dividends and the redemption of capital stock until working capital is at least twice consolidated funded indebtedness. At 31 July 1976, we were $2,012,000 short of this requirement. In addition, preferred dividends amounting to $5,011,000 and mandatory redemption requirements of $5,154,000 were in arrears. Therefore, for Genesco to have been in a position to make all required dividend payments and stock redemptions, an increase in working capital in excess of 200% of consolidated funded indebtedness amounting to $12,177,000 would have been required.

The company's loan agreements also contain other restrictions on the payments of dividends and redemption of capital stock; however, at 31 July 1976 these other restrictions would not have prevented payment of preferred dividends or redemption of capital stock.

Consolidated Balance Sheet

31 July	1976	1975
Assets		
CURRENT ASSETS		
Cash	**$ 15,601,000**	$ 14,477,000
Receivables	**28,730,000**	26,544,000
Inventories	**243,663,000**	232,013,000
Fixed assets held for resale	**6,329,000**	6,796,000
Prepaid expenses	**636,000**	677,000
Future tax benefits	**16,000,000**	11,500,000
TOTAL CURRENT ASSETS	**310,959,000**	292,007,000
Investments and long-term receivables	**17,291,000**	16,632,000
Future tax benefits	**21,984,000**	38,493,000
Plant, equipment and capitalized lease rights	**123,845,000**	138,797,000
Deferred note expense	**2,103,000**	454,000
Investment in excess of equity	**12,121,000**	12,567,000
TOTAL ASSETS	**$488,303,000**	$498,950,000
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 9,979,000**	$ 12,611,000
Current payments on capitalized lease obligations	**9,355,000**	10,259,000
Accounts payable and accrued liabilities	**89,490,000**	113,410,000
Provision for discontinued operations	**2,440,000**	3,938,000
TOTAL CURRENT LIABILITIES	**111,264,000**	140,218,000
Long-term debt	**106,376,000**	96,687,000
Capitalized lease obligations	**47,756,000**	54,119,000
Minority interests	**—0—**	122,000
Provision for discontinued operations	**12,036,000**	12,773,000
Deferred credits to income	**7,020,000**	7,737,000
Stockholders' equity	**203,851,000**	187,294,000
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$488,303,000**	$498,950,000

Consolidated Earnings Statement

Year ended 31 July	1976	1975
Net sales	**$1,135,099,000**	$1,095,935,000
Cost of sales	**768,754,000**	771,216,000
Selling, administrative and general expenses	**313,127,000**	301,768,000
Interest expense	**19,217,000**	26,631,000
	1,101,098,000	1,099,615,000
Pretax earnings (loss) of U.S. and Canadian operations	**34,001,000**	(3,680,000)
Income taxes	**(16,885,000)**	(3,804,000)
Nonconsolidated companies	**(1,186,000)**	(6,943,000)
Net earnings (loss)	**$ 15,930,000**	$ (14,427,000)
EARNINGS (LOSS) PER COMMON SHARE		
Primary	**$1.00**	$(1.42)
Fully diluted	**$ .92**	$(1.42)

See summary of accounting policies and notes to consolidated financial statements.

Consolidated Stockholders' Equity

31 July	1976	1975
$4.50 Cumulative Convertible Preferred	$ 1,795,000	$ 1,895,000
Subordinated Cumulative Convertible Preference		
$4.25 Series A	60,000	60,000
$6.00 Series B	12,114,000	12,114,000
$6.00 Series C	12,565,000	12,560,000
Subordinated Serial Preferred		
$2.30 Series 1	3,681,000	3,716,000
$2.40 Series 2	8,107,000	7,776,000
$4.75 Series 3	8,006,000	8,006,000
$4.75 Series 4	6,565,000	6,565,000
$4.75 Series 5	9,847,000	9,847,000
Subordinated Cumulative Preferred	3,000	3,000
Employees' Subordinated Convertible Preferred	40,178,000	40,593,000
Total preferred stock	102,921,000	103,135,000
Common stock	12,982,000	12,969,000
Additional paid-in capital	58,542,000	58,504,000
Earnings retained in business	78,263,000	62,418,000
	252,708,000	237,026,000
Less treasury stock, at cost	28,676,000	28,676,000
	224,032,000	208,350,000
Less employee incentive stock purchase accounts	20,181,000	21,056,000
TOTAL STOCKHOLDERS' EQUITY	$203,851,000	$187,294,000

Consolidated Additional Paid-In Capital

Year ended 31 July	1976	1975
Balance at beginning of year	$58,504,000	$60,965,000
Expenses relating to capital stock issuances	(66,000)	(69,000)
Conversion of notes and preferred stock	400,000	(434,000)
Redemption of preferred stock	—0—	(80,000)
Increase in liquidating value of preferred stocks	(296,000)	(330,000)
Cost of treasury stock in excess of market value at date reissued	—0—	(1,548,000)
BALANCE AT END OF YEAR	$58,542,000	$58,504,000

Consolidated Earnings Retained In Business

Year ended 31 July	1976	1975
Balance at beginning of year	$62,418,000	$81,022,000
Net earnings (loss)	15,930,000	(14,427,000)
Preferred dividends paid	(85,000)	(1,764,000)
Redemption of preferred stock	—0—	(2,413,000)
BALANCE AT END OF YEAR	$78,263,000	$62,418,000

Consolidated Changes In Financial Position

Year ended 31 July	1976	1975
SOURCE OF WORKING CAPITAL		
Net earnings (loss)	**$ 15,930,000**	$(14,427,000)
Utilization of future tax benefits	**12,038,000**	—0—
Depreciation and amortization	**16,943,000**	17,176,000
Other charges (credits) to earnings not requiring funds	**(393,000)**	4,979,000
Working capital provided from operations	**44,518,000**	7,728,000
Long-term debt issued	**70,000,000**	446,000
Plant and equipment sales	**5,233,000**	2,727,000
Additions to capitalized lease obligations	**4,396,000**	6,110,000
Increase in current future tax benefits	**4,500,000**	—0—
	$128,647,000	$ 17,011,000
USE OF WORKING CAPITAL		
Preferred dividends paid	**$ 85,000**	$ 1,764,000
Redemptions and conversions of preferred stock	**100,000**	5,284,000
Long-term debt paid or charged against working capital	**59,982,000**	15,215,000
Reduction in capitalized lease obligations	**10,759,000**	13,871,000
Other increases in noncurrent future tax benefits	**—0—**	9,927,000
Other changes in investments and long-term receivables	**563,000**	23,813,000
Reserve items affecting working capital	**280,000**	5,599,000
Additions to plant, equipment and capitalized lease rights	**7,742,000**	12,942,000
Acquisition of goodwill and minority interests	**157,000**	525,000
Other uses (sources) of working capital	**1,073,000**	(1,883,000)
Increase (decrease) in working capital	**47,906,000**	(70,046,000)
	$128,647,000	$ 17,011,000
INCREASE (DECREASE) IN WORKING CAPITAL		
Cash	**$ 1,124,000**	$ 5,285,000
Receivables	**2,186,000**	(13,167,000)
Inventories	**11,650,000**	(46,536,000)
Fixed assets held for resale	**(467,000)**	(1,670,000)
Prepaid expenses	**(41,000)**	(2,000)
Future tax benefits	**4,500,000**	(10,500,000)
Total current assets	**18,952,000**	(66,590,000)
Current liabilities	**28,954,000**	(3,456,000)
Increase (decrease) in working capital	**$ 47,906,000**	$(70,046,000)

See summary of accounting policies and notes to consolidated financial statements.

Genesco Financial Corporation and Subsidiary

Consolidated Balance Sheet 31 July	1976	1975
Assets		
Cash	**$ 1,019,000**	$ 1,178,000
Accounts receivable purchased from Genesco less contract reserve withheld	**131,120,000**	121,094,000
Notes receivable—Trustee of Genesco employee incentive stock plans	**11,000,000**	8,000,000
Notes receivable—other	**583,000**	807,000
Prepaid interest	**559,000**	655,000
Investments and other assets	**350,000**	360,000
Deferred long-term note expense	**300,000**	342,000
	$144,931,000	$132,436,000
Liabilities and Stockholder's Equity		
Notes payable to banks	**$ 69,950,000**	$ 59,250,000
Accrued liabilities	**1,512,000**	1,552,000
Long-term debt		
8.25% senior notes with annual installments of $4,000,000 beginning 31 March 1979	**40,000,000**	40,000,000
8.75% senior subordinated notes with annual installments of $1,000,000 beginning 31 March 1979	**10,000,000**	10,000,000
Stockholder's equity	**23,469,000**	21,634,000
	$144,931,000	$132,436,000

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
First American Center
Nashville, Tennessee 37238

The Board of Directors and Stockholders
Genesco, Inc.

We have examined the consolidated balance sheet of Genesco Inc. and consolidated subsidiaries as of 31 July 1976 and 1975 and the related consolidated statements of earnings, earnings retained in business, additional paid-in capital and changes in financial position for the years then ended. We have also examined the consolidated balance sheet of Genesco Financial Corporation and subsidiary as of 31 July 1976 and 1975. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Genesco Inc. and consolidated subsidiaries and of Genesco Financial Corporation and subsidiary at 31 July 1976 and 1975 and the results of operations and the changes in financial position of Genesco Inc. and consolidated subsidiaries for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in the method of accounting for the translation of foreign currencies and for employee incentive stock purchase accounts as described in the summary of accounting policies.

Peat, Marwick, Mitchell & Co.

23 August 1976

Basis of consolidation: The consolidated financial statements include the accounts of the company and all domestic and Canadian subsidiaries, except Genesco Financial Corporation. Nonconsolidated subsidiaries are carried at cost adjusted for undistributed earnings or losses since acquisition. The company's equity in income or losses of these subsidiaries is included in the consolidated earnings statement after provision for income taxes where appropriate.

The income before taxes of Genesco Financial Corporation is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes. The combined results of all other nonconsolidated subsidiaries are included as a single item in the consolidated earnings statement.

Inventories: Inventories are stated at the lower of approximate average cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, equipment and capitalized lease rights: Plant, equipment and capitalized lease rights are depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight-line method.

Income taxes: Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax accounting for items such as depreciation, sale and leaseback transactions, reserves for lease commitments on closed stores, profits on installment sales and deductions related to accounts receivable.

Federal income taxes are reduced by the investment tax credit using the flow-through method.

Amortization of intangibles: The excess of cost over equity of purchased companies reflected in the consolidated financial statements is being amortized over a forty-year period. Gains from the sale and leaseback of plant and equipment are being amortized over the lives of the respective leases.

Retirement plans: The company funds pension costs accrued as determined by its independent actuaries.

Earnings per common share: Primary earnings per share are computed by dividing net earnings after deducting preferred dividends paid or accrued by average common shares and common share equivalents outstanding. In the computation of fully diluted earnings per common share, earnings and average common shares are appropriately adjusted for outstanding dilutive securities.

Financial statement reclassifications: Consistent with current accounting trends, all classes of preferred stock have been restated to liquidation value, retroactive to date of issuance. The effect of this restatement at 31 July 1975 was to reduce paid in capital $71,900,000 and retained earnings $20,300,000 and to increase preferred stock by $92,200,000 all with no effect on total stockholders' equity.

The current portion of lease obligations has been reclassified to current liabilities.

Accounting changes: In July 1976 the company adopted Financial Accounting Standards Board Standard No. 8 regarding accounting for the translation of foreign currencies. Under this method, current assets (excluding inventories) and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Inventories and noncurrent assets are translated at historical exchange rates. Income, costs and expenses are translated at average rates during the year except that historical rates are used to translate depreciation and cost of sales. Gains and losses arising from the retroactive application of this statement, which are immaterial, have been credited or charged to earnings in the periods incurred. See "Quarterly Data" on page 15 of the Financial Review.

Much publicity has recently been given Employee Stock Ownership Plans (ESOP). The company has concluded that its Employee Incentive Stock Plans embrace most of the ESOP principles. Therefore, consistent with currently emerging trends, the accounting for these plans was changed in July 1976. The effect of this change was to retroactively eliminate the employee incentive stock purchase accounts as an asset and treat them as a reduction of stockholders' equity. The company treats any short-term bank loans which the trustee of the stock plans might have as a current liability even though not guaranteed. There were no such loans at 31 July 1976. Current liabilities at 31 July 1975 include short-term bank loans to the trustee of $12,900,000. Trustee obligations to GFC are treated as a reduction in the company's investment in GFC.

None of the above reclassifications or accounting changes affected earnings in either year except for the immaterial effect of the change in accounting for the translation of foreign currencies.

Note 1

Accounts Receivable and Inventories

See page 16 of the Financial Review for detail

Note 2

Investments and Long-Term Receivables

	1976	1975
Equity in Genesco Financial Corporation	**$23,469,000**	$21,634,000
Less – advances by GFC to Trustee of Genesco employee incentive stock plans	**11,000,000**	8,000,000
	12,469,000	13,634,000
Investment and advances – other nonconsolidated subsidiaries	**2,885,000**	507,000
Other investments and long-term receivables	**1,937,000**	2,491,000
TOTALS	**$17,291,000**	$16,632,000

Note 3

Plant, Equipment and Capitalized Lease Rights

	1976	1975
Land	**$ 1,563,000**	$ 1,657,000
Buildings and building equipment	**9,523,000**	9,437,000
Machinery, furniture and fixtures	**77,798,000**	86,033,000
Construction in process	**1,046,000**	991,000
Improvements to leased property	**51,465,000**	55,891,000
Capitalized lease rights	**108,395,000**	109,043,000
	249,790,000	263,052,000
Less accumulated depreciation and amortization	**125,945,000**	124,255,000
TOTALS	**$123,845,000**	$138,797,000

Note 4

Long-Term Debt

	1976	1975
4.75% convertible subordinated note dated July 1962, due 1982 with annual payments of $25,000; convertible into common stock at $24.88 per share	**$ 400,000**	$ 425,000
4.875% obligation dated October 1970, due 1977	**1,238,000**	2,477,000
5.00% notes dated July 1964, due 1984 with annual payments of $2,000,000	**28,000,000**	30,000,000
5.25% notes dated February 1961, due 1981 with annual payments of $938,000	**8,742,000**	9,681,000
7.25% and 7.50% Deutsche Mark notes payable to foreign banks dated July 1969, due July 1976	**–0–**	7,534,000
9.25% notes dated November 1970, due November 1976	**–0–**	50,000,000
10.375% senior sinking fund notes dated March 1976, due December 1984 with annual payments of $4,900,000 beginning June 1977	**70,000,000**	–0–
6.50% convertible subordinated debentures (series A) due 1987; convertible into common stock at $41.67 per share	**1,172,000**	1,172,000
6.50% convertible subordinated debentures (series B) due 1987; convertible into common stock at $45.45 per share	**4,244,000**	4,244,000
Notes payable incurred by companies prior to acquisition due in varying amounts to 1984 at various interest rates from 4% to 8%	**2,889,000**	3,765,000
	116,685,000	109,298,000
Unamortized debt discount	**330,000**	–0–
	116,355,000	109,298,000
Less current portion	**9,979,000**	12,611,000
TOTALS	**$106,376,000**	$ 96,687,000

The company guarantees all payments on long-term convertible debentures of $12,383,000 of a nonconsolidated foreign finance subsidiary. The guarantee is subordinated to the prior payment in full of all present and future senior indebtedness. At 31 July 1976 a restriction in certain long-term debt agreements prevents the resumption of preferred dividends and the redemption of capital stock until working capital is at least twice consolidated funded indebtedness. At 31 July 1976, the company was $2,012,000 short of this requirement. In addition, preferred dividends amounting to $5,011,000 and mandatory redemption requirements of $5,154,000 were in arrears. Therefore, for the company to have been in a position to make all required dividend payments and stock redemptions, an increase in working capital in excess of 200% of consolidated funded indebtedness amounting to $12,177,000 would have been required.

The company's loan agreements also contain other restrictions on the payments of dividends and redemption of capital stock; however, at 31 July 1976 these other restrictions would not have prevented payment of preferred dividends or redemption of capital stock.

Note 5

Income Taxes

Operating loss carryforward benefits applicable to years prior to 1975 have been recognized as assets in the consolidated balance sheet and will be used to offset taxes otherwise payable on future profits. The majority of these carryforward losses expire during the years 1977-1980 and management feels their utilization is assured beyond a reasonable doubt. *See page 17 of the Financial Review for additional information.*

Income tax expense is composed of the following:

	1976	1975
Future tax benefits used:		
U. S. Federal	**$12,038,000**	$ —0—
Current taxes:		
Canadian	**4,304,000**	3,690,000
State	**543,000**	114,000
TOTALS	**$16,885,000**	$3,804,000

The effective tax rate on pretax income of U. S. and Canadian operations was 49.7% in 1976. The variation between the effective rate and the 48% federal statutory rate amounted to less than 5% of the 1976 tax provision. The consolidated tax provision for 1975 varies from the statutory provision because no tax benefit was recognized in the financial statements relating to losses incurred by U. S. operations in 1975 while taxes were provided for Canadian operations.

During fiscal 1976, the company reached agreement with the Internal Revenue Service to settle the examination of its tax returns for fiscal years 1964 through 1972. The settlement, for which provision had been made in prior years, had no effect on financial position or results of operations.

Note 6

Retirement Plans

Pension expense amounted to $4,054,000 in 1976 and $2,661,000 in 1975, including amortization of prior service cost over 30 years. Actuarially computed vested benefits exceeded the total pension fund and balance sheet accruals by $9,000,000 at 31 July 1976 and the unfunded prior service cost was $22,500,000. During fiscal 1976, the company amended its retirement plan to conform with requirements of the Employee Retirement Income Security Act of 1974. This amendment, along with modifications in actuarial assumptions to reflect more current estimates, accounted for the increase in pension costs.

Note 7

Rentals and Lease Commitments

For purposes of the following disclosure, a distinction has been made between noncapitalized "financing" leases and "other" leases. A "financing" lease is a lease with a term covering 75% or more of the estimated useful life of the property or with lease payments sufficient for the lessor to recover its investment plus interest.

Rental expense for the two years ended 31 July was as follows (in thousands):

	1976	1975
Financing leases:		
Minimum rentals	**$ 5,959**	$ 6,171
Contingent rentals	**538**	237
Sublease rentals	**(211)**	(215)
	6,286	6,193
Other leases:		
Minimum rentals	**32,149**	33,362
Contingent rentals	**2,707**	2,266
Sublease rentals	**(1,051)**	(1,069)
	33,805	34,559
TOTALS	**$40,091**	$40,752

Minimum rental commitments payable in future periods under noncancelable long-term leases (reduced by sublease rentals) are as follows (in thousands):

Fiscal Year	Financing Leases	Other Leases	Total
1977	$ 4,794	$18,252	$23,046
1978	4,329	16,517	20,846
1979	4,239	13,652	17,891
1980	4,101	10,042	14,143
1981	3,911	7,610	11,521
1982-1986	13,418	28,048	41,466
1987-1991	6,804	14,125	20,929
1992-1996	723	3,081	3,804
After 1996	65	153	218

In addition to minimum rentals, some leases provide for the company to pay real estate taxes and other expenses and, in certain cases, additional rentals based on sales. Renewal options exist for most long-term leases.

The present values of minimum lease commitments under noncapitalized financing leases at 31 July are as follows (in thousands):

	1976	1975
Retail real property	**$24,178**	$26,867
Wholesale & manufacturing real property	**9,033**	10,916
Other	**166**	476
	33,377	38,259
Present value of sublease rentals	**(1,452)**	(1,682)
TOTALS	**$31,925**	$36,577

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-8.5%	5.2%
Wholesale & manufacturing real property	1.2-6.5%	4.8%
Other	5.5-7.0%	7.0%
Present value of sublease rentals	3.5-6.5%	5.9%

If such financing leases were capitalized the effect on net earnings would be less than 1%.

Note 8

Stockholders' Equity

Distinguishing characteristics of preferred stock

	Shares Authorized	Shares Issued at 31 July 1976	Shares Issued at 31 July 1975	Per Share: Stated and Liquidation Value*	Per Share: Redemption Price*	Common Convertible Ratio
$4.50 Cumulative Convertible Preferred	82,368	17,953	18,951	$100.00	$102.50	3.75000
Subordinated Cumulative Convertible Preference						
$4.25 Series A	68,943	600	600	100.00	100.00	Non Convert.
$6.00 Series B	161,981	121,144	121,144	100.00	101.00	2.40000
$6.00 Series C	269,291	125,647	125,597	100.00	102.00	2.20000
Subordinated Serial Preferred						
$2.30 Series 1	131,826	89,337	89,337	41.20	41.20	.83330
$2.40 Series 2	395,626	165,436	165,436	49.00	49.00	Non Convert.
$4.75 Series 3	105,875	80,058	80,058	100.00	103.00	2.10526
$4.75 Series 4	103,000	65,648	65,648	100.00	104.00	1.51510
$4.75 Series 5	122,500	98,474	98,474	100.00	104.00	1.61290
Subordinated Cumulative Preferred	5,000,000	105	105	30.00	30.00	Non Convert.
Employees' Subordinated Convertible Preferred	5,000,000	1,339,278	1,353,103	30.00	Non Redeem.	1.00000

*Before adding effect of dividends in arrears.

At 31 July 1976 there were 20,000,000 common shares authorized and 12,982,576 issued compared to 12,968,751 issued at 31 July 1975. Common shares reserved at 31 July 1976 for conversion of senior securities and for employee stock plans amounted to 2,632,660 and 779,283, respectively.

Each share of series B and C preference stock, in addition to being convertible into common stock, is exchangeable for $100 principal amount of 6.50% convertible subordinated debentures due 1987. However, at 31 July 1976, such exchanges were prohibited by the company's Charter and by a restrictive covenant in the company's long-term loan agreements.

Provisions of the series 2 preferred stock require the company to place approximately $2,500,000 in a sinking fund on or before each 1 January of calendar years 1976-1978, for redemption during such calendar year of 20% of the shares of series 2 stock originally issued. Provisions of the series 5 preferred stock require the company to offer, during each November of 1975-1978, to redeem on each succeeding 31 December, 20% of the shares (approximately $2,500,000) of series 5 stock originally issued. At 31 July 1976, such sinking fund payments were prohibited by the company's Charter and long-term loan agreements. Sinking fund payments in arrears at 31 July 1976 amounted to $5,154,000.

See page 17 of the Financial Review for dividend arrearages on preferred stock.

Changes in the shares of the company's capital stock
Year ended 31 July 1976 and 1975

	Common: Issued	Common: Treasury	Preferred: Employees'	Preferred: Other
Balance at 31 July 1974	12,963,720	537,165	1,358,128	847,385
Issuance of treasury stock	—0—	(55,000)	—0—	—0—
Redemptions	—0—	—0—	—0—	(77,602)
Conversion of securities	5,031	—0—	(5,025)	(4,433)
Balance at 31 July 1975	12,968,751	482,165	1,353,103	765,350
Redemptions	—0—	—0—	—0—	(998)
Issuances	—0—	—0—	—0—	50
Conversion of securities	13,825	—0—	(13,825)	—0—
	12,982,576	482,165	1,339,278	764,402
Less treasury stock	482,165		301,677	1,860
Outstanding at 31 July 1976	12,500,411		1,037,601	762,542

Note 9

Employee Stock Plans

The stockholders of the company have approved four stock purchase or option plans enabling employees to purchase shares of employees' preferred or common stock. These are the Savings Fund-Employee Stock Purchase Plan, the Key Executives Stock Option Plan and Employees Incentive Plans A and B.

Employees are granted options to purchase shares of common stock under the Savings Fund-Employee Stock Purchase Plan at a price determined two years after date of grant subject to maximum and minimum prices determined at date of grant. Options to purchase 29,283 shares of common stock at a price of $10.54 per share were outstanding on 31 July 1976 and expire 31 August 1976. 1,130,222 additional shares are available for future options.

The company has 750,000 shares of common stock authorized to be sold upon exercise of non-qualified stock options granted to key executive employees under the Key Executive Stock Option Plan. Options may not be granted at a price less than market value on the date of grant. On 31 July 1976, options granted in December 1975 to purchase 229,500 shares at $5.125 per share were outstanding. These options become exercisable at the rate of 25% per year beginning December 1976 and expire in November 1985.

Under Employee Incentive Stock Plan A, payments on stock purchase accounts are made by payroll deductions and, upon resumption of the common stock dividend, will also be made by the company through compensatory payments. Payments under Employee Incentive Stock Plan B are similar except employees make only limited payments and then only in specified circumstances. Employee incentive stock purchase accounts amounted to $20,181,000 at 31 July 1976 and $21,056,000 at 31 July 1975. Such accounts were secured by 1,037,601 employees' preferred shares and 50,574 common shares at 31 July 1976. No further sales of shares under plans A and B are currently contemplated.

Note 10

Pending Legal Proceedings

The company believes the ultimate disposition of the following actions will not have a material effect on its financial position:

The company, certain of its officers and directors and its independent certified public accountants, are defendants in a class action filed in February 1974 charging defendants with publishing false and misleading financial statements and reports in violation of federal securities laws and, as a result, inflating the price of the company's common stock. The complaint seeks damages in an unspecified amount. The company has denied the substantive allegations and has asserted certain affirmative defenses. On 22 December 1975, the Court held that the action could proceed as a class action and limited the class to those who purchased Genesco common stock between 21 August 1972 and 27 August 1973 and who still held such stock on 27 August 1973.

The company, GFC and E. B. Holt, (treasurer of the company and president of GFC) are defendants in an action filed in May 1970 against them and against Leeds Shoes, Inc., a corporation which operates a chain of retail shoe stores in Florida. The suit claims violations of the federal securities laws by Leeds and claims the company and GFC were "controlling persons" of Leeds and are therefore liable for its actions. The assertion that the company and GFC were "controlling persons" was based on allegations of, among

other things, (i) ownership of Leeds' common stock (which the company did not own) and ownership of its preferred stock, (ii) loans to Leeds' president (which the company did not make), (iii) service by Genesco employees as directors of Leeds (the company's employees never constituted a majority of the Board) and (iv) economic influence by Genesco as Leeds' principal supplier (which the company has denied). The company and GFC deny they are or were "controlling persons" of Leeds. Plaintiffs' motion to have the case proceed as a class action and other motions are pending before the Court.

The company is a defendant in a civil antitrust action filed on 7 October 1974 by the U. S. Department of Justice in the federal court for the Southern District of New York, alleging that the company and others fixed retail prices of women's clothing in the New York Metropolitan Area, and seeking an injunction against the alleged misconduct. The company's time to respond to the complaint has not yet expired, but the company is seeking to enter into a consent decree to resolve the litigation.

The company has also been named as a defendant in several private treble damage actions filed in the Southern District of New York and one filed in the Northern District of Illinois, based upon the same alleged violations asserted in the above-described Department of Justice action. The company has filed answers in all actions, denying the substantive allegations of the respective complaints.

On 2 July 1976 the parties to the New York actions, including the company, filed with the Court, subject to its approval, a Stipulation of Settlement which provides in essence that defendants will establish a credit fund for their charge account customers, and pay certain costs, as are approved by the Court, of administering the settlement and of attorneys' fees. The total amount of the settlement for all defendants, including both credits and cash, is $5.2 million, of which the company's share is $1.1 million. Provision for this amount has been made in the financial statements by a charge to 1976 earnings. A formal notice has been sent to the potential members of the class advising them of the pendency of the actions and the settlement that has been agreed to. A hearing to determine the fairness of the proposed settlement has been scheduled by the Court for 30 September 1976.

Five Year Summary of Operations and Other Data

FISCAL YEARS ENDED 31 JULY:

	1976	1975	1974	1973	1972
Net Sales	**$1,135,099**	1,095,935	1,184,727	1,224,550	1,158,933
Cost of Sales	**$768,754**	771,216	819,867	855,320	794,521
Gross Margin	**$366,345**	324,719	364,860	369,230	364,412
Selling, Administrative and General Expenses	**$313,127**	301,768	302,937	319,656	310,980
Interest Expense	**$19,217**	26,631	24,768	17,299	15,062
Pretax Earnings (Loss) from Operations	**$34,001**	(3,680)	37,155	32,275	38,370
Income Taxes	**$16,885**	3,804	17,475	15,176	15,988
Minority Interests	**$ —0—**	—0—	204	337	173
Nonconsolidated Companies	**$ (1,186)**	(6,943)	(2,017)	(1,457)	(2,010)
Earnings (Loss) from Continuing Operations	**$15,930**	(14,427)	17,459	15,305	20,199
Loss from Discontinued Operations, Net	**$ —0—**	—0—	—0—	(11,771)	(7,324)
Earnings (Loss) before Extraordinary Losses	**$15,930**	(14,427)	17,459	3,534	12,875
Extraordinary Losses, Net	**$ —0—**	—0—	—0—	(55,623)	(3,909)
Net Earnings (Loss)	**$15,930**	(14,427)	17,459	(52,089)	8,966
Primary Earnings (Loss) per Common Share Continuing Operations Net Earnings (Loss)	 **$1.00** **$1.00**	 (1.42) (1.42)	 1.09 1.09	 .92 (4.47)	 1.31 .41
Long-Term Debt	**$106,376**	96,687	111,456	118,953	120,008
Working Capital	**$199,695**	151,789	221,835	214,717	246,895
Stockholders' Equity	**$203,851**	187,294	208,037	198,283	261,046
Book Value per Common Share	**$ 10.03**	9.03	10.53	9.55	13.88
Average Shares Common Stock Outstanding	**12,493,000**	12,466,000	12,424,000	12,406,000	12,228,000
Number of Stockholders	**53,000**	55,000	52,000	55,000	51,000

Figures for 1972-1975 have been restated, where appropriate, for accounting principles changes and discontinued operations. All dollar figures are in thousands except amounts per share.

Management's Discussion and Analysis of Operations

Net Sales

The sales improvement in fiscal 1976 reflects the improved economic climate. The decline in fiscal 1975 is attributable to major reductions in orders from retailers who were attempting to reduce inventories in view of economic conditions, a decline in consumer spending and a 5% reduction in the number of retail units operated.

Gross Margin

The increase in gross margin in 1976 is attributable to the disposition of excess productive capacity, increased levels of production in remaining plants and more effective merchandising in retail operations. As part of inventory liquidation programs during 1975, retailers concentrated their purchases on promotional merchandise, which was abundantly available. In order to remain competitive and to keep plants operating at minimum acceptable levels, it was necessary to sell at lower than normal margins. In addition, as part of the company's program to keep inventories in line with reduced sales volume, production was severely curtailed, resulting in the underabsorption of certain fixed costs. These two factors resulted in the 1975 decline.

Selling, Administrative and General Expenses

The increase in fiscal 1976 reflects increased wholesale selling expenses due to improved sales. The decline in 1975 is attributable to an extensive expense reduction program initiated in the fall of 1973.

Genesco Securities Information

Interest Expense

The decrease in 1976 is the result of a 25% decrease in average short-term debt, as well as a decrease in average interest rates. An increase in interest rates and average short-term borrowings due to the scheduling of borrowings resulted in an increase in 1975 interest expense.

Income Taxes

The 1976 provision represents utilization of future tax benefits by U.S. operations as well as a provision for taxes on income of Canadian operations. The 1975 provision related principally to Canadian operations. U.S. operations experienced a loss in 1975 and no tax provision was recorded.

Nonconsolidated Companies

The improvement in 1976 is a result of the divestment, during 1975, of several European operations. The 1975 loss includes losses on divestment of these companies.

Common Stock

The company's common stock is listed on the New York Stock Exchange with the symbol GCO. No dividend has been paid on common stock during the past three fiscal years. The following table lists the high and low sales price of Genesco common stock during each quarter of fiscal 1976 and 1975.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1976	5⅜	3¾	7½	4¾	9	7	7⅞	6⅛
1975	5¼	4	4⅝	2⅝	4⅝	3	6¼	3¼

Preferred Stock

All classes of the company's preferred stock are traded in the over the counter market. All preferred dividends are six quarters in arrears except the $4.50 Cumulative Convertible Preferred which is three quarters in arrears. The following table shows the average bid and asked prices for each quarter of fiscal 1976 and 1975 on those classes of preferred which were traded. All remaining classes were virtually untraded and no meaningful price information could be obtained.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
Preference Series B								
1976	18	–	21½	–	NQ	NQ	30½	–
1975	30	–	30	37	19	–	18	–
Preference Series C								
1976	20	24	22	26	24	–	31	–
1975	30	–	32	37	19	–	20	24½
Preferred Series 1								
1976	8	10	7¼	9¼	8½	11	10½	13
1975	NQ	NQ	10½	13½	6½	11	7½	11
Preferred Series 2								
1976	14	–	13	–	12	–	12	–
1975	NQ	NQ	29	–	21	–	10	–

Information for this chart furnished by the National Quotation Bureau.

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Genesco Corporate Information

1976

Corporate Offices

111 Seventh Avenue, North
Nashville, Tennessee 37202
615 367-7693

730 Fifth Avenue
New York, New York 10019
212 582-9090

Cable Address

GENCORP

Telex Numbers

Nashville, Tennessee 55 4423
New York, New York 12 6814

Transfer Agents

Common Stock and Preferred Stock

Morgan Guaranty Trust Company
New York, New York 10004

First American National Bank
Nashville, Tennessee 37237

Registrars

Common Stock and Preferred Stock

Chemical Bank
New York, New York 10015

Third National Bank
Nashville, Tennessee 37244

New York Stock Exchange Symbol

GCO

Annual Meeting of Stockholders

Monday, 6 December 1976

Form 10-K

Each year Genesco files with the Securities and Exchange Commission a Form 10-K report which contains more detailed information. If you would like to receive a copy, please send your request to Genesco Inc., Route K-41, Director-Consolidated Financial Reporting, P. O. Box 941, Nashville, Tennessee 37202.

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Nashville TN 37202
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